Q3FY17 Investor's Conference Call Transcript on 13/02/17

Moderator: Good evening ladies and gentleman, thank you for standing by. This is Mallika, the moderator for you call today. We welcome you to the post result conference call of AIA Engineering Ltd. We have with us today the management team of AIA Engineering Ltd. At the moment all participant lines are in listen only mode. Later, we will conduct a Q&A session. At that time if you wish to ask a question you may press *&1. Should you need assistance during this conference call you may signal an operator by *&0. I will now like to handle the conference over to the management. Thank you and over to you sir.

Kunal Shah (Executive Director, Finance): Yes, thank you so much. Very good evening to everyone on the phone. This is Kunal, and I also have Sanjay Bhai with us on the call. As always I will start with a brief update on the numbers of this quarter and then we can go on with the Q&A. Moderator my voice is okay right?

Moderator: Yes sir, please go ahead.

Kunal Shah: We are happy to report that we have done reasonable tonnage for this quarter. We have done total sales of 56800 tonnes of which 36000 tonnes are from mining sales and the rest are cement and utility. Which brings our nine month number to 156000 tonnes and the corresponding number for mining would be about 97000 tonnes. This compares with 132000 tonnes for nine months last year and 72000 tonnes of mining sales last year. So from a volume standpoint we are on track to go up to 210000 tonnes for the full year, up from about 185000 tonnes in fiscal year 2015-2016. That 56800 tonne reflects 590 cr of sales but that includes 17 cr of excise, net of that we are 573 cr of sales for the quarter. Likewise if I drill down further into the numbers our EBITDA is 195 cr and PAT is 120 cr.

To break up our other income, other operating income includes export benefits which were at 16.5 cr and other non-operating income includes about 18 cr of treasury operations and a FOREX gain of 2.5 cr. So total 22 cr in other non-operating income.

To walk you through some key ratios on working capital. Our raw materials increased from 38 days on end of June to about 43 days in third quarter. That just reflects the high volatility we have seen on ferro-chromium and scrap prices. Both rates have gone up. Ferro-chrome has gone up significantly. There is no hedging mechanism available to us so we have slightly increased our stocking levels of raw materials.

Our WIP and finished goods continue to be about 60 days and receivables are at about 75-76 days. Working capital absolute amount is higher on account of higher sales in this quarter but by and large in line with what we have seen historically.

Our total CAPEX is 20 cr, we expect this year's CAPEX to be slightly lower than what was projected. We projected about 150 cr for FY16-17, we believe it should be under 100 cr. Some of that front loaded pay-out will push back into FY17-18.

From our capacity expansion side, we are at 340000 tonne. We will commission the first phase of the next 100000 tonne expansion of 50000 tonne in October and December this year. This will bring us to 390000 tonnes. The balance 50000 tonne is expected in 2018. We will guide on the likely dates of the second phase at a later time.

All of this CAPEX will be in GIDC, so we are well placed for all land and pollution permits. We expect CAPEX of 300 cr next year because critical spend in 2017-2018 for first 50 and second 50 is expected around that time.

From a marketing standpoint I would request Sanjay Bhai to give a little bit of color. As mentioned before our guidance stand at incremental volume growth stands at 125000 tonnes for three years and we are not guiding about margins. Like we explain each time there are a variety of factors that go into what margins that ultimately get drawn out.

We are seeing headwinds in terms of raw material price and shipping rates. On currency the Rupee has depreciated against the dollar. So these are the thing we need to factor in and move forward. So considering some of these headwinds our margins may not be on current levels but we are not guiding on where they will end up at.

We continue to be optimistic about our prospects in the mining segments. As you can see we did almost 97000 tonnes in nine months and should be 130000 tonnes for the full year. This is reasonable penetration into that space and we continue to make inroads into more mines. This will help us achieve 125000 tonne incremental target in three years.

Cement and utility market continue to be flat. Any uptick in those markets in India or outside will only benefit us as natural consequences. So we are not dwelling much on global macro picture guiding cement consumption.

Our net cash is at 1114 cr as on 31 December, gross cash is at 1200 we have 85 cr of debt which reflects a small portion of ECB which has to be paid about 25 cr and we have got some banking credit. I think I have covered most of the highlights of this quarter. Sanjay bhai if you want to add anything.

Sanjay Majmudar (Independent Non-Executive Director): Thank you Kunal. A very warm welcome and good evening to all of you. As you can see we have done reasonably well in this quarter. The directional indications are also reflecting the strategy that is to say very aggressive penetration into the mining space which is a huge opportunity given the fact that we are looking at a total market of two and a half to three million tonnes vis-à-vis penetration, between us and Magotteaux, the two main players in this segment in the high chrome space, at just around ten to twelve percent.

The target continues at 120000 tonnes in three years, the year one being the current fiscal year. Where it is obvious that we should be able to do about 25000 to 30000 tonnes incremental volumes in mining this year. Which is all that is driving the growth, there is hardly any other growth coming from cement which continues to remain flat. Our whole hearted efforts to penetrate further into more number of mines continues unabated and we are also happy to share that we are getting quite a good response from the areas and the mines where we are working.

Again, as you all know it is a very long process, it takes 6 to 12 months for us to reach an ideal solution for a given mine. For us every single mine is a customer, a separate location is a customer because the degree of customization is extremely deep and diverse from mine to mine. However, the efforts are very strong, results are quite gratifying and we believe we will eventually emerge as a very strong player in this space.

I think with that let the house be open for Q&A please.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the Q&A session. If you have a question please press *&1 and a wait your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw yourself you may do so by pressing *&2 key. The first question is from the line of Balchandran Shinde from Anand Rathi.

Balchandran Shinde: Good evening sir and congrats for volume growth and sustaining the margins. Relatively, the additional 100000 tonnes we are expecting in the next few year, are we expecting in primary segment and in which sectors like iron ore, platinum, gold or copper.

Sanjay Majmudar: Mr. Shinde see as we have told earlier we are looking at the market holistically, primary, secondary, tertiary and everything but of course currently the focus is more on bigger size balls. Having said that we will not be ignoring the other segment which please not point number 1. Point number 2, we have been focusing on certain ores like copper and gold, that doesn't mean than platinum and iron we would not look at. However, I would believe that the major driver would be copper and gold. Of course with some volumes also coming in from the other two segments.

Balchandran Shinde: Sir, regarding the recent rally in iron ore and ferro-chrome prices. So now what is the difference between forged grinding media and high chrome grinding media? And exactly when we are able to actually pass on the raw material price increase to the respective customer or we have to absorb it into our operations.

Sanjay Majmudar: See it is very difficult to give you any simple straight forward answer to this difference. As I said each and every product and application could have a different set of dynamics that can come in. It is very obvious as Kunal Bhai explained that there is a steep increase in the ferro-chrome prices. And ferro-chrome being the major raw material in term of value of almost 40-50% of the contribution to the raw material cost in term of value is coming from ferro-chrome. And a steep price increase in ferro-chrome prices makes our initial penetrative strategy a little difficult.

Having said that we have to work with a dynamic situation where at times the prices could be very favourable, at times temporarily or even in the long term basis the prices could be adverse. First we believe this looks like a temporary phase because of sudden spurt in demand from China. Nevertheless, let us not go in to it, the fact of the matter is the benefit that ultimately a customer will get will determine whether they will switch from a forged application to a ferro chrome based application. We firmly believe the benefits are really strong and compelling, having said that we will have to factor in the pricing and the effect of the raw material cost.

Therefore, definitely it will lead to at least a near term pressure on the pricing and the margins, particularly in the segments we are entering afresh. And as I explained over a period of time we have the ability to pass on, of course for the initial endeavours and the new projects that we get we do not like to lock in for long term as a matter of policy. All our orders are for short term, but for the given short term orders our prices would be fixed. So, let us say with a lag of 3-6 months on a natural order driven process there is an inherent ability to absorb and pass on the prices, but it works in various manners and doesn't work on a strait jacket formula.

Balchandran Shinde: A last question, how is the difference between now a forged and high chrome grinding media?

Sanjay Majmudar: Again I said there is no clear cut standard difference in terms of value. If it is a standard product you can say 10% or 20% difference. How do you give the difference as a yardstick? That is very difficult to answer. Obviously forged should be more expensive, now how much more expensive depends on case to case, client to client it will be completely different and solution to solution.

Moderator: Next question is from the line of Ashutosh Tiwari. Please go ahead.

Ashutosh Tiwari: Hello sir, congratulations on a very good set of numbers. Sir firstly, we mentioned that major growth drivers are copper and gold and we have seen very good volume growth in the current quarter in mining. The two major regions South America and Africa. South America I believe is a tougher market. So are we getting more traction in South America and now in copper?

Kunal Shah: Not really. I do not think we can make a generalization like that.

Ashutosh Tiwari: So Africa remains the bigger market?

Sanjay Majmudar: Even that would not be correct.

Kunal Shah: First of all this question is not relevant. We are going out after all customers, it is not region based per se. Where ever copper is produced, and we are there. We are making efforts for Chile as well.

Ashutosh Tiwari: Okay. Actually more copper and gold is produced in Africa and South America that is why asking this question.

Kunal Shah: Correct.

Ashutosh Tiwari: And secondly, when you convert a customer from say forged to high chrome grinding media, we have been highlighted in the past that there are two reasons. One is the consumption goes down and that is why the overall cost goes down and second is recovery. Does recovery become a big factor in overall cost saving?

Kunal Shah: Recovery is an important aspect of what we bring to the table. Our fundamental approach to the engagement with the customer is of reducing the wear cost. Right. The stickiness comes from all the other benefits we bring.

Ashutosh Tiwari: Yes. That is why I am asking. The point I want to make is that because the recovery increases in that case shifting of customer from high chrome to forged will become very difficult even if the high chrome prices increases. Right

Sanjay Majmudar: It does not happen that once a customer starts using our product they go back to forged. I do not think we have come across any such instance so far.

Ashutosh Tiwari: And sir, the larger part of the volume growth is coming from new customers or is it a ramp up in mining production as well because commodity prices is moving up.

Kunal Shah: New customers. There is no ramp up per se.

Ashutosh Tiwari: Okay sir. Thank you.

Moderator: Next question is from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: Sir, congratulations on a good set of numbers. Regarding the mining volumes, just wanted to know directionally are we seeing further inquiries from customers which will sustain greater than 20-25% growth. And if you can throw a light on how the market has been, what has been the directional growth in market share in this space?

Sanjay Majmudar: See, there is nothing like this. It is not a solution that we are offering where you get a lot of enquiries per se. It is process where we do a lot of development at many new locations with many new customers. It is a parallel process that you know we take our trials, we compare the results, and we go back we come back again. It is an ongoing process. Of course there are enquiries in the sense that the customer enables you to move ahead and show how good our solution is. Once that solution is clear then he is ready to for commercial dialogue where the benefits are very clear.

Generally, there are no reasons why if we are able to demonstrate the benefits that he will back out. You get my point? Yes there are quite a new mines that are under development and we are fairly confident of attaining this 120000 tonnes in three years as we have being giving as our target without too much of a problem.

Ravi Swaminathan: Sir, among existing clients who have been associated with you for a 2-3 year period. On a general basis, have the ticket volume improved and increased.

Sanjay Majmudar: Yes they would definitely grow with a normal trajectory. But as I said the current focus as Kunal Bhai explained is too much to drive volume growth in terms of new business that we take in. Maximum number of mines that we can put our foothold into, so that we have a very strong base and a platform to take our business to the next level. There would definitely be incremental volume growth also from existing customers over a period of time.

Ravi Swaminathan: And sir in terms of input cost, how many quarters will it take for the current input cost to be fully captured in our numbers. Partially it has been reflected in the third quarter. Can we see similar impact at a gross level in the fourth quarter and it will then kind of get fully captured by FY17 end?

Sanjay Majmudar: Maybe two more quarters.

Ravi Swaminathan: And then it will kind of stabilize assuming.

Sanjay Majmudar: This we are assuming that it will continue to be at the same level. It can go down as well.

Ravi Swaminathan: Correct.

Sanjay Majmudar: You get my point? It is a dynamic situation. It is not something which we cannot manage.

Ravi Swaminathan: Okay. Got it sir. Thank you.

Moderator: Next question is from the line of Mittal Mehta from Lucky Investment Managers.

Mittal Mehta: Good evening Kunal. Congratulations on a good set of numbers. Just wanted to get some sense, if I was looking at your September investor presentation and current one where the order book seems to have fallen, from 800 cr to some 600 cr. So is this an important number to track or not really? And second do you give the breakup in mining between primary, secondary and tertiary.

Kunal Shah: In fact if you look at our commentary over the last four years our order book has not shifted from 400 to 500 cr. In fact what happened is there were some longer tenure orders which were recorded that came in related to castings actually. Supply to OEMs, and other projects where the supply period is longer. So I do not think that order book is any reference of our supply for the next quarter or the coming period.

Mittal Mehta: And you know in your mining volumes, do you break it up between primary, secondary, and tertiary?

Kunal Shah: No we don’t. I mean we can break it up by country, by ore, by their circuit type etc. but we do not believe in it and we do not track it internally as well.

Mittal Mehta: This entire 2500000 tonnes addressable opportunity, within that how big is primary?

Sanjay Majmudar: Almost 50% I think.

Mittal Mehta: Thank you.

Moderator: Next question is from the line of Charanjeet Singh from BNK Securities.

Charanjeet Singh: Hello sir, congratulations on a good set of numbers. I was trying to understand, now we are penetrating with new customers. So, what is the kind of success rate which you would have seen and the kind of issues you would have faced in this kind of a penetration which are maybe making things difficult in certain locations?

Sanjay Majmudar: See Mr. Singh it is not absolutely comparable to a tender business that you just fill up a tender and you are not L1 there would be a ratio of 10-20-30%. This is not as simple as that. What it really generally happens is once you start a development process, the process of identifying the customer itself would entail a lot of research and homework on our part to ensure that we do not waste one year two year and then we do not get nothing. So generally I would say where we are developing and we have commenced that work, there are definitely I would say a very very decent chance that we would come out with a solution but to put a number that that success ratio is 50% or 70% is not fair to the whole process. Okay? So that is the first part of your question.

See, first and foremost any customer in the world you ask at a very distant base in terms of production. So the freight, the logistics involved to ensure that the customer get the material without an interruption or without the customer having to stock significantly. In fact one of the primary reasons why you see our finished goods inventory going up is that we have already created warehouse networks across the globe in various locations. So even in the remotest location we can give the comfort to the customer that they not have to stock big and do not have to place long gestation orders to us and wait for a couple of months after having placed the order. That in itself is a big challenge but yes we are overcoming that.

Second, there are different tariff barriers imposed by each geography, each government. So generally we have to ensure that such barriers do not create a blockade which is difficult for us to penetrate.

Third is obviously the fact of the matter, that it a very hard truth that even after the new customer is convinced about the benefits. They still want us to supply the grinding media at a price which is almost as close or almost comparable to forged media price. So this is a mind-set issue and they will put all sorts of arguments to convince us that why we need to price it so. You get my point?

Fourth is of course there are currency issues, like we are dealing with multiple currencies. Volatility is a problem. These are the issues we have always considered. However, we have to therefore make our model and the defence of the solution robust enough that eventually the customer will start buying.

Charanjeet Singh: Thank you a lot for that detailed answer. Can you also help us understand the primary media market as such? Who else will be having a good solution like this? And how is our cost competiveness versus others.

Sanjay Majmudar: See it is obvious that the biggest competitor the forged media players like Molycop, SCAW metals and others. They are the ones who have been traditionally to a large extent have been supplying to this market which constitute almost 50% of the total market. Magotteaux is obviously there because it was the one of the major players. However, I would say that we have definitely gained a little foothold in terms of better positioning and a better ability to penetrate. Having said that we are also creating large capacities which are helping us make sure that we are always available if and when we get the market share. From the high chrome side we two are the only players.

Charanjeet Singh: If you can help us understand. This raw material part, how would be our cycle in terms of, when we get the order, to procurement and to supply. What would be the time frame?

Sanjay Majmudar: What we are currently trying to do is we are trying to take short term orders although customer wise they want to lock us in for one year. Once you take that order, at least for that order the price gets locked in. Now, as I explained the raw material is comprising of two main components, one is ferro chrome and the other is melting scrap. In terms of value, almost 50% of cost is from ferro chrome and as Kunal bhai has explained prices have jumped recently over last 3-5 months. As again it is very long and continuously following trend cycle takes place. So what happens is, all those immediate orders that we have locked in, there is an average element of cost as some raw material is locked.

So all the fresh purchases and currently making is at a higher cost. So our overall average cost goes up. What our point was that the next round of orders that we will take, we will negotiate to ensure that we have a price that will absorb the current ferro chrome price. We will not be successful all the time to pass on the raw material cost completely and immediately. This may take a lag of 3-6 months but over a period of next 3-6 months therefore what you might see as one of the other participant had put up a question. There could be some effect of some ferro chrome prices picking up in terms of the average inventory cost we carry which will definitely have some effect on the margins in the near term one or two quarter.

But that would be one of the many factors with which we are working. This is not the only thing we should worry about. This is something that has happened recently and with magnitude that is why it has become important.

Charanjeet Singh: One last question, in the gold and copper segment, the current volumes could be minuscule but how would be the ramp up in the future?

Sanjay Majmudar: Quite good, quite good. That is all I can share.

Charanjeet Singh: Thank you.

Moderator: Next question is from the line of Kashyap from Axis Capital.

Kashyap: Good evening Kunal Bhai and Sanjay Bhai. Congratulations on a good set of numbers. What would be your take on realizations going ahead, especially since new capacities are coming up and our conscious focus is to increase our penetration towards the primary side as well? So would you yet be conservative and stick with the same per tonne realizations or do you think over time realizations will move up.

Sanjay Majmudar: I think we will stick with this for the time being.

Kashyap: But structurally is there a case for realizations to move up given that you will be getting into higher value added products in the primary segment?

Sanjay Majmudar: No I do not think so because we are dealing with multiple factors. Let us for the time being let us stick to this only.

Kashyap: Secondly, when we talk of volume growth and market share gain, just wanted to understand that when we are getting growth, how would the mix be? Are you getting more growth from forged media conversion or market share gain from Magotteaux?

Kunal Shah: It will be both. When we are saying we have grown from, we have done 35000 tonne this quarter and 25000 last quarter, it does not mean that 25000 continues and we did plus in one of the two. There is a constant churn that happens, figuratively our competitor is not de-growing so clearly the chrome space is growing.

Kashyap: Sure. I just wanted to understand the call about high chrome media gaining ground over time that is playing out.

Kunal Shah: That is the thesis behind our mining story.

Kashyap: Sure. And if I look at the mining story per se. Global mining CAPEX would be at a 10 year low.

Kunal Shah: It does not matter to us. We are at the replacement side. As long as the ore is consumed, and the metal is produced, it does not matter if that ore is selling at $35/tonne or $100/tonne. As long as it is consumed or processed our product is constantly required.

Kashyap: Correct. The question is about the incremental recovery. Like say during the cycle when the raw material prices are low. The transition to high chrome during mining closures maybe faster because the solution that AIA is giving in terms of enhancing recovery for the mining customer is something they would look forward to.

In a situation, where mines are anyway shut and mining CAPEX is low and the end product prices are firming up. Would that really move the needle for them by switching to a solution because they would make more money on the uptick in ore prices in any which way. How do you see this?

Kunal Shah: We do not believe that this is linked at all. See how they are thinking, how they doing, varies from customer to customer, plant to plant. All said and done we are a better solution Kashyap, by that fundamentally if our thesis is true, migration has to happen. In between various factors affect us at times, the procurement decision gets delayed but structurally if our product high chrome is better than forged then if that thesis is true it may take a few more months. This migration is here to say. Radial tires are overtaking non-radial tires. There is a shift in the industry as far as the grinding is concerned.

Kashyap: Sure, point taken. Any which way since you are confident of the incremental growth of 120000 tonne, I will just go with that for now. From a cash perspective, considering that we still have cash and with the CAPEX that is going to come through you will be accumulating a lot of cash going forward. So incrementally, what would your thoughts be on this cash? Would it mean higher pay-outs or would you look at acquisitions?

Sanjay Majmudar: Sure. See, at a board level and from a strategic standpoint we are very clear that we believe that a lot of growth is yet to come. There could be opportunities, there could be many other situations which would want us to be…….disconnected…….. We believe ……disconnected……

Disconnected………….In the medium to long term?

Kunal Shah: We are…inaudible…. They can also produce the same product that was being produced by the old owner. It does not affect us at all.

ABC: And do you think, there would be a slowdown on their side that could be captured by AIA?

Kunal Shah: First tell me why so?

ABC: Okay. Sure sir. And sir my second question is on the export which is happening from the Chinese High Chrome ball manufacturer…..disconnected……

Kunal Shah: Disconnected…….Actually as the quantity is not so much, we look at those numbers as the….inaudible… organized sector we do not talk about….inaudible….per se

ABC: Okay, so you do not think this will have a material impact on the volume?

Kunal Shah: Not really.

ABC: Next question, past three years we have seen that 30 to 40% is the primary segment. What is the expected trend for this year and probably for the next year? ......Disconnected…….

Kunal Shah: As we keep explaining this is just the segmentation we have done. We have been doing primary also quite a bit. It is just that in market 1.5 million tonnes is primary and 1 million is secondary and tertiary. We have been doing part and our aim to go after the whole market. So it will not help in answering how much we will do here or there. The idea is to grow wherever there is business opportunity.

ABC: I asked this question because a lot of client are ready to convert in primary segment and that is where new client addition may happen. So that is why I wanted to understand if there is sufficient opportunity. And sir last question, will we be targeting any new ores?

Kunal Shah: Not really.

Sanjay Majmudar: As of now yes.

Moderator: The next question is from the line of Anupam Gupta from IIFL.

Anupam Gupta: Sir, when you are looking to expand volumes by cutting prices for new customers specifically. Is there a risk that old mining customers also ask for a similar pricing?

Sanjay Majmudar: First please understand that there is no such thing as a public price that a customer A and customer B will ever be able to compare. There is never an apple to apple comparison. What I am supplying to A and to B is radically different. So is there any comparison?

Anupam Gupta: Sir why I specifically ask is let's say the customer is same but mine is different, say BHP Billiton has two separate mines to which you are supplying. So they may still have some reference to the pricing at the other mine.

Sanjay Majmudar: Correct they will have full reference, so how does it matter? For example mine A of BHP I am doing at 12% of Chrome product, and mine B I am doing at 16%, it could be a little different design and composition. So it cannot be compared, that is the whole point.

Anupam Gupta: Understood that. Second thing, another type of supply which is ADI grinding balls. Is that a significant market against cast balls?

Kunal Shah: Not really, ADI is not our ….inaudible…. product, we predominantly see that in China but China is not a market of interest for this stuff.

Moderator: Next question is from the line of Gagan Taneja from Kotak Investment Advisors.

Gagan Taneja: Good evening sir, is it possible to segregate your working capital in mining and other segments?

Sanjay Majmudar: No we will not do that.

Gagan Taneja: Secondly you indicated that 50% of your…

Sanjay Majmudar: Of course, Gagan but incremental increase in inventory is attributed to more stocking of our product in our go downs.

Gagan Taneja: Second question is you indicated that ferro chrome is 50% of your raw material cost, has this ratio changed over a 5 year timespan? If I remember correctly it used to be 20-30%

Sanjay Majmudar: 20-25% in terms of volume and 50% in terms of value. That has not changed.

Gagan Taneja: Can you give some qualitative idea in difference in metallurgical composition of primary vs secondary circuit grinding media?

Sanjay Majmudar: No. ….inaudible….. All you can say is this has taken a lot of efforts on our part to develop this solution. It is unique in many ways not just metallurgy but combination of application, knowledge, design, metallurgy and heat treatment. So many variables.

Gagan Taneja: Finally last question. You indicated that the ferro chrome demand from China has gone up. Would you attribute this to your competitor in the Chinese market?

Sanjay Majmudar: No, ferro chrome is used ….inaudible….. in so many places, for example steel manufacturing. That spurt cannot come. We are talking of a segment that is so small, rather we should talk of the segment which is huge which is steel making, where ferro chrome is used.

Gagan Taneja: I thought the Chinese steel industry is going through real painful time.

Sanjay Majmudar: No one can understand how these people operate. Get my point.

Moderator: Next question is from the line of Bhumika Nair from IDFC securities.

Bhumika Nair: Good evening sir, congratulations on a good set of numbers. Most of my questions have actually been answered. Just one thing to get a sense on, what would be the number of customers you would have in mining?

Kunal Shah: I do not have the exact number now.

Sanjay Majmudar: Each mine being a separate customer.

Kunal Shah: Yes but I do not have the number now. Will have to check.

Bhumika Nair: Broadly?

Sanjay Majmudar: 100+ (was inaudible could not be sure) (please confirm with the management)

Bhumika Nair: What would have been the yearly addition that we have seen to this? Most of our volume growth has been led by as you said by new customer addition.

Kunal Shah: We do not track the numbers so closely but we can get back to you later.

Moderator: Next question is from the line of Nitin from Ambit Capital.

Nitin: A question on the primary, again to execute the target of incremental 120000 tonnes sales in next two three years. Today, if it is 50-50 between primary and secondary, how do you see the split when the whole sale will be 220?

Sanjay Majmudar: See it is again very tough Nitin because in two three, of course this opens up new avenues if we are going very gung-ho about everything. As Kunal has already explained I will not let go of any opportunity in secondary, tertiary that comes my way. Again it is not strictly, we are talking about a market composition that does not mean my market, what my sales would exactly be in that composition but over a period of time maybe it can happen. It can be anything. Currently the incremental volume can come from for sake of argument primary. But over a period time say when I am 300-400000 tonnes it could maybe 50-50 we do not know.

Nitin: Okay. Secondly, how does the business change in terms of inventory, logistic cost etc. because of primary share or secondary and pricing?

Sanjay Majmudar: No that does not change. It is the same composition across all geographies wherever the mines are located you have to be there. You have to take the trials, you have to keep stock for them in a nearby go down. Everything is the same.

Nitin: I was thinking from the inventory cycle, is the inventory days going to increase because of this product.

Sanjay Majmudar: Not much maybe from 60 days to 62-63 days. I do not think. Kunal do you think it will have a major change in the number of days. I don't think so.

Kunal Shah: Not really. Because it is linked to our sales. Historically 40% of our sales is working capital and it will continue in the same range.

Nitin: Historically, at one point of time the non-mining sales realizations were materially different from the mining sales. Today how should we think about it? Is the realization converging?

Sanjay Majmudar: It cannot converge as such. It has to be, we always therefore talk about a weighted average realization. It is very difficult it cannot converge. Please understand, there is a difference in product ranges where the prices are quite different in the power or cement or mining. Mining is predominantly driven by grinding media. So it cannot converge pre se. But having said that I answered with this question, somebody had asked, weighted average realization is this range. For the time being looks more doable.

Nitin: How should one think about the gap today between mining and non-mining is it 10%-20%?

Sanjay Majmudar: I would request you to not think so much about the gap. Let's keep our life simpler no.

Nitin: So last one was, in terms of do each and every customer or mine that you penetrate or sign up, do they ask for Health & Safety standards inspection of your manufacturing location. How does that happen? Do they do such inspections, how regular are they?

Kunal Shah: Inspections are once a year, not all of them do it. Only the big mining groups do.

Nitin: Generally all our locations are approved and have not gone through any major issues like in pharma.

Sanjay Majmudar: We do not have those issues like the FDA approved pharma plant.

Nitin: That is the FDA one, but does the client have to do HSE one.

Kunal Shah: We don't ….inaudible….. For them to come in ….inaudible…. there is nothing we have seen. We need to be clear on these terms, we do not see anything of this kind in our line of work.

Nitin: Would Rio Tinto and BHP be a large volume buyer like a 15-20%?

Kunal Shah: Not really.

Sanjay Majmudar: See for us, every customer is a separate mine actually. This purchase is not centralized, it is driven by that mine manager or in-charge. It is much diversified do not think that kind of concentration risk is there at all.

Nitin: So Kunal, six months back you said you found some success in Latin America. How, why is that successful entry, why is it not increasing materially. It is still taking time to develop. What are the issues? How should one think about it?

Kunal Shah: There are no issues. We are just growing at the pace that we are saying. It is not one day it can have, one day we are there and next year we have another 100.

Moderator: The next question is from the line of Pritesh Sahni from Religare Capital Markets.

Pritesh Sahni: Sir my question is related to, you emphasized that the recent expansion will be on the outskirts of Ahmedabad and therefore you emphasized on pollution. We have been hearing a lot of capacity closures in China with respect to steel, aluminium etc. Are we seeing any capacity closures with respect to grinding media stuff?

Kunal Shah: No.

Pritesh Sahni: And coming back to the gap that was asked. Can you share the gap between domestic and landed ….inaudible…. Is the gap 10-15%?

Kunal Shah: You mean selling price in India and outside India?

Pritesh Sahni: No selling price in India and if one wants to import it?

Kunal Shah: Of what?

Pritesh Sahni: Grinding Media?

Kunal Shah: Import from whom? From Magotteaux?

Pritesh Sahni: From any country?

Kunal Shah: There are only two competitors, in the whole sector. We compete everywhere including India.

Pritesh Sahni: That I am aware about. I was just trying to come to this point that in 2012 there was an anti-dumping duty that was passed? There was an amount of …inaudible….

Kunal Shah: There was 10 % duty for us to sell in Thailand, 10% for Brazil, 20% to sell in China, 5% to sell in Australia, 5% to sell in …inaudible…. So I mean duties are there where they don't have any duties in Belgium and other plants was. (Inaudible)

These are all micro-analysis of what we are doing. Structurally we should focus on conversion to chrome. Duties are something that are here today, and then go away tomorrow. That is not ….inaudible….

Nitin: So coming back to that one. If these duties were to kind of expire, you really do not think there will be meaningful impact for our domestic operations.

Kunal Shah: It will have an impact but something else may happen no. These are micro ….inaudible….

Nitin: Are we kind of putting up for further protective measures or is it going to ….inaudible…

Kunal Shah: Should we discuss this in a public forum.

Sanjay Majmudar: There is some confusion here. One second Kunal, let me make this clear. When I am selling outside India to my customer, why should I worry about any kind of anti-dumping duties and against whom should I worry about?

Nitin: No sir I am not asking about those products. My focus was only on domestic products.

Sanjay Majmudar: Domestic products mean, domestic to whom? ….inaudible….

Nitin: No the guys to whom we sell to ….inaudible….

Sanjay Majmudar: It is very simple, we have Magotteaux which has plants at several locations versus us who are having in one location. Then there is the strength in the product and the solution. Ultimately, if the commercial strength of that solution is compelling, no amount of trade barriers, or anything artificial can put an impediment beyond a point for them not to buy unless they are completely irrational. You get my point?

Nitin: Sir, my question was, we have a trade barrier. If my understanding is correct, if somebody wants to import today, especially for these cement and the power guys, I think in May 2012 there was an anti-dumping duty passed which included grinding media excluding the forged one.

Kunal Shah: That duty is from the plant in Thailand not from any other plant of Magotteaux.

Nitin: I get that point.

Kunal Shah: They can import from anywhere. It was only for one country where there was dumping done. That is what the government had ….inaudible…. at the time. It protects us from dumping, it doesn't protect us from other things. Here it is a free market like it for all the 210000 tonnes we will do. It was Thailand and China, two countries.

Moderator: Next question is from the line of Charanjeet Singh from BNK Securities.

Charanjeet Singh: Help us understand what is the kind of manufacturing capacities in the High Chrome front available right now? Do you see a ramp up happening?

Sanjay Majmudar: AIA?

Charanjeet Singh: No only AIA, on the overall industry level.

Sanjay Majmudar: Well, Magotteaux's capacity on High Chrome Kunal would be around….

Kunal Shah: It would be about 400-450000 tonnes.

Sanjay Majmudar: High Chrome entirely.

Charanjeet Singh: That would be Magotteaux.

Kunal Shah: Please take this offline. We will walk you through that.

Charanjeet Singh: What I was trying to understand is more towards the ramp up. Do we see more manufacturing capacities coming on in High Chrome?

Kunal Shah: None that we are aware of.

Moderator: Next question is from the line of Shraddha from Edelweiss.

Shraddha: Sir, just one question that I am confused about. Someone had asked earlier, with the increase in raw material prices are we looking into re-pricing our existing contracts. To that you said we are not looking into any re-pricing of contracts.

Sanjay Majmudar: Because Shraddha, as I explained none of those contracts, most of them are not long term. They are all order to order, or maybe for a fixed duration of 2-3 months etc. You cannot re-price that, it is not fair.

Shraddha: And the upcoming contracts?

Kunal Shah: The effort is to pass on the price. It takes a few quarters to pass through. So that effort is on. The next orders will reflect the new raw material rates.

END